

BUSINESS STRATEGY IN THE HEALTH SERVICE

Professional 2 examination **8 December 1999**

From 10.00 am to 1.00 pm
plus ten minutes reading time from 9.50 am to 10.00 am

Instructions to candidates

Answer **five** questions in total. **Question 1** from Section **A**, **two** questions from Section **B** and **both** questions from Section **C**. The marks available for each question are shown in italics in the right-hand margin.

All workings should be shown. Where calculations are required using formulae, calculators may be used but steps in the workings must be shown. Calculations with no evidence of this (for example, using the scientific functions of calculators) will receive no credit. Programmable calculators are not permitted in the examinations room.

Formula sheets, statistical tables, graph paper and cash analysis paper are available from the invigilator, where applicable.

SECTION A (Compulsory)**1**

The Mendip NHS Trust is a large, recently merged, NHS Trust, situated in the middle of the large town of Mendire. Mendire is a university town that has a large student population. It also attracts a number of British and foreign visitors. There are two other trusts in the area that provide similar services although each has its particular specialism. Mendip NHS Trust specialises in renal dialysis and treatment, as well as providing a full range of all services excluding Accident and Emergency facilities that are currently exclusively provided by one of the other Trusts.

The Mendip NHS Trust has become increasingly concerned about the rapidly changing external environment in which it operates. These changes include the setting up of Primary Care Groups, an end to the Fundholding GP scheme, the replacement of annual contracts with longer term service agreements and an increasing demand to make cost improvements, as well as technological changes with implications for the ways in which healthcare is delivered. It now wishes to consider the various measures it might take to maintain the quality of its services while remaining financially viable.

It has therefore set up a steering committee to highlight aspects of strategic analysis and strategy formulation, which might be undertaken as part of strategic planning. At its first meeting, the steering committee invites you, as planning officer, to present a paper outlining the various analytical processes which could be undertaken to assist in the formulation of strategy. In your initial paper you decide to outline the techniques of PEST and scenario analysis.

- **Requirement for question 1**

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|-----|--|---|
| (a) | Present a PEST analysis grid identifying some of the additional external factors which are likely to affect the Trust. | 3 |
| (b) | Using appropriate examples, show the three main steps involved in ensuring the PEST analysis has strategic value to the Trust. | 3 |
| (c) | Define scenario analysis and indicate how this might enable the Trust to develop its strategic planning process. | 3 |
| (d) | Using the environmental changes outlined in the question and identified in your PEST analysis, suggest three alternative future scenarios (or visions) for Mendip NHS Trust. Briefly outline the environmental merits and problems of each scenario. | 9 |

(18)

SECTION B (Answer two questions)**2**

- (a) One approach to planning sees planning occurring at three levels within an organisation. You are required to identify these levels and the type and content of the planning considered appropriate at each level. 6
- (b) Identify five aspects of good practice in planning and critically discuss how far the planning process in an organisation with which you are familiar conforms to those criteria. 12
- (18)

3

- (a) Explain what is meant by the 'Balanced Scorecard' and how it can assist in the strategic planning process. 6
- (b) Outline four perspectives of the balanced scorecard as they would apply in the public sector and illustrate each with a practical example from an organisation in the health service. 12
- (18)

4

Despite recent Government reforms market forces still play a significant role in the provision of many public services. Consequently market analysis can play an important part in the design and delivery of public services.

- **Requirement for question 4**

- (a) Describe the stages through which markets typically develop. 3
 - (b) Illustrate the Boston Consultancy Group matrix, defining the product types it includes and giving examples from the health sector of each, discussing briefly the applicability of the matrix to the provision of health services. 10
 - (c) State what is meant by the term 'market segmentation', explaining the role it can play in public service design and showing the way in which it might be applied in healthcare. 5
- (18)

5

SECTION C (Answer both questions)

You are the Contracts Accountant at Redshire NHS Trust. The trust has three clinical directorates: Renal, Medicine and Maternity.

The trust has a strategic plan and within it the following long-term objectives are incorporated:

- (i) To provide a high quality of service throughout each of the three clinical directorates.
- (ii) To ensure that the Trust increases its income base from GPs.
- (iii) To maintain a balanced financial position.

With the re-structuring of the NHS with effect from 1st April 1999, the Trust is particularly concerned that GPs may have increasing influence within the Primary Care Groups currently being set up. There has in the past been some concerns over the Trust's income from GPs, with a major renal contract having been lost recently to a neighbouring trust, and several other GPs expressing concern over the quality of service that is being provided. It has been decided to carry out an analysis of 1998/99 in order to identify any problems that need to be addressed early on during 1999/2000. The following table represents the planned Income and Expenditure Account for the year 1998/1999.

Income and Expenditure Account for the year 1998/99

Income	Plan £000
Category A	41,857
Category B	
ECRs	859
Others	2,578
Category C	1,596
Total Income	46,890
Expenditure	
Pay	21,587
Non pay	15,482
Depreciation	3,100
Total expenditure	40,169
Operating surplus	6,721
Interest payable	4,513
PDC dividend	1,504
Surplus / (Deficit)	704

Notes:

1. Category A income is block contract income from the main purchaser. A 2% tolerance was allowed within the contract activity levels.
2. Category B income is cost per case income with GPs and ECR income from other DHAs.
3. Category C income is in respect of income received for training.
4. Category B income was estimated based mainly on the previous year. GPs have not committed to pre-determined levels of activity.
5. The non-pay expenditure plan assumes that a total cost improvement target of £600,000 will be met.

Planned Activity for 1998/1999 (Categories A and B)

	Cost per FCE £	Activity	£000
DHA Renal	1,600	5,389	8,622
DHA Medical	860	25,390	21,835
DHA Maternity	1,200	9,500	11,400
GPFH Renal	1,450	593	860
GPFH Medical	680	1,618	1,100
GPFH Maternity	1,100	562	618
ECR Renal	900	344	310
ECR Medical	450	1,002	451
ECR Maternity	1,300	75	98
Total		44,473	45,294

The following actual income and expenditure account and activity statement has been prepared for 1998/99.

Income and Expenditure Account to 30 March 1999 (Actual)

Income	Actual
	£000
Category A	41,857
Category B	
ECRs	420.2
Others	1,962
Category C	1,596
Total Income	45,835.2
Expenditure	
Pay	21,601
Non pay	15,732
Depreciation	3,100
Total expenditure	40,433
Operating surplus	5,402.2
Interest payable	4,513

PDC dividend	1,504
Surplus / (Deficit)	(614.8)

In terms of activity this represents:

	Activity
DHA Renal	5,400
DHA Medical	25,300
DHA Maternity	9,520
GPFH Renal	560
GPFH Medical	1,400
GPFH Maternity	180
ECR Renal	160
ECR Medical	400
ECR Maternity	74
Total	42,994

There is soon to be a Trust Board meeting where the Director of Finance and Contracting will be required to comment on the financial performance of the Trust in the light of the strategic plan. In addition, after the last Board meeting the chairman had raised the issue of quality of the services that the Trust provides.

• **Requirement for question 5**

You are required to write a report, suitable for presentation at the next Trust Board meeting that:

- (a) Addresses the issues raised in the strategic plan of the Trust. In addition to drawing the Board's attention to significant issues raised from the 1998/99 results, you are required to make recommendations as to how the Trust should address any areas of concern. 15
 - (b) Makes recommendations as to how the Trust could monitor quality in the services it provides to GPs. 4
 - (c) Identifies the characteristics of budgeting required for it to be an effective tool in monitoring strategic plans. 4
- (23)

6

The Costing and Contracts Advisory Service (CCAS) is a service that has been set up to operate across the NHS to assess and compare costs of healthcare across the country. It publishes a large amount of data that is available to NHS Trusts as well as Health Authorities and GPs. The information it provides is used as a means of making comparisons, as well as aiding health authorities and GPs in the commissioning of services.

All CCAS expenditure is met from government funding, which is top sliced from NHS funding at an early stage in the allocation process. All staff are direct employees of CCAS although civil service terms and conditions apply.

When the CCAS was first established in 1988 it was considered appropriate that it should be set up on a regional basis and operated from the District Regional Health Authority offices. At that time it was the Costing Advisory Service and was concerned mainly with assessing the costs of healthcare only, using the Trust Financial Cost returns as a basis for analysis. However in 1993 ministers collectively took the decision, against a background of growing complaints about the quality and integrity of the service, that the operation of CCAS should no longer be provided from Regional office premises and should become independent. At this point five regional centres were established, one in Scotland and four in England. Part of the rationale for the change was the development of more efficient and effective administration procedures, which up until 1993 were extremely labour intensive, and operated on the basis of considerable local variances.

In 1993 a bespoke IT system was developed by ITI Co, a small software company, and introduced into each of the five centres. The system introduced in Scotland differed only marginally to the ones in England to reflect the minor differences in legislation and costing requirements. Three months after the introduction of the new system it became evident that the legislative and reporting differences required more substantial operational variances. ITI Co argued that any modifications to the system would be in addition to the original contract price as they had delivered what had been specified. The debate between ITI Co and the CCAS went on for a further three months. Just as it seemed that a resolution would be reached, ITI Co went into receivership. The assets of ITI Co were eventually bought by ITRUS Co who undertook to support the CCAS system on a care and maintenance basis only.

As a result of this, the Scottish regional centre developed changes to accommodate the legislative and reporting differences by employing consultants. By the end of 1997 each of the five centres had made substantial changes to the operational system to the extent that all but a small core of the original functionality remained the same across all the centres. By the end of 1998 all attempts to aggregate or compare the results across the centres were abandoned, despite the need to be able to do this being considered by ministers as one of the key drivers for change in 1993.

As in earlier years there is again mounting criticism about the quality of service provided by the CCAS. However, in addition, the National Audit Office has announced that it is to

investigate CCAS following a detailed anonymous letter claiming that some £5 million of public funds have been wasted in the introduction and ongoing development of its IT system since 1993. The involvement of the National Audit Office has focused the attention of the Department of Health on the need to address the problems of CCAS and, in particular, to consider carefully future options for IT development.

You are a member of a joint working group set up to consider options for dealing with the CCAS's current IT problems and have been asked to produce a report for its next meeting which:

1. Sets out how appropriate options might be generated, evaluated and short-listed; and
2. Identifies and evaluates the options available to resolve the current problems.

● **Requirement for question 6**

Prepare a report for the next meeting of the working group as outlined above. Your report should:

- | | | |
|-----|---|------|
| (a) | Set out approaches to generating, evaluating and shortlisting appropriate strategic options relevant to the scenario. | 15 |
| (b) | Identify appropriate options for dealing with CCAS's current IT problems, and how the options might be evaluated. | 8 |
| | | (23) |